8th August 2016

Luxury & Consumer Goods

Grandvision

Price EUR25.10

Optimistic outlook reinforced by a proven growth strategy

Fair Value EUR28 (+12%) **BUY**

Bloomberg	GVNV NA
Reuters	GVNV AS
12-month High / Low (EUR)	27.7 / 21.9
Market Cap (EUR)	6,387
Ev (BG Estimates) (EUR)	7,151
Avg. 6m daily volume (000)	93.90
3y EPS CAGR	9.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.2%	6.7%	-3.6%	-9.3%
Consumer Gds	3.8%	5.2%	7.0%	-0.8%
DJ Stoxx 600	5.3%	2.6%	4.7%	-6.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	3,205	3,387	3,544	3,708
% change		*5.7%*	*4.6%*	*4.6%*
EBITDA	512	548	588	629
EBIT	353.2	375.9	415.2	448.1
% change		*6.4%*	*10.4%*	*7.9%*
Net income	212.7	231.8	260.8	285.6
% change		*8.9%*	*12.5%*	*9.5%*

	2015	2016e	2017e	2018e
Operating margin	11.0	11.1	11.7	12.1
Net margin	6.6	6.8	7.4	7.7
ROE	27.3	24.2	23.6	22.6
ROCE	18.7	19.9	21.7	23.6
Gearing	112.9	75.8	53.6	34.1

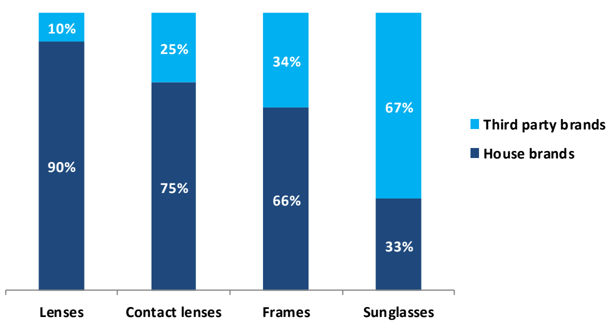
(EUR)	2015	2016e	2017e	2018e
EPS	0.85	0.93	1.02	1.12
% change	-	*9.0%*	*10.5%*	*9.5%*
P/E	29.5x	27.1x	24.5x	22.4x
FCF yield (%)	3.7%	4.1%	4.5%	5.1%
Dividends (EUR)	0.14	0.35	0.39	0.45
Div yield (%)	0.6%	1.4%	1.6%	1.8%
EV/Sales	2.3x	2.1x	2.0x	1.8x
EV/EBITDA	14.3x	13.1x	11.9x	10.9x
EV/EBIT	20.7x	19.0x	16.9x	15.3x

It was interesting to note that after a soft start to the year, the acceleration in top line and earnings momentum in Q2 was fuelled by some pillars belonging to the group's business model (i.e. exclusive brand portfolio, competitive pricing strategy, streamlined cost structure, etc.) on which management spent much time during the conference call last Friday. Hence MT targets were reiterated for 2016 and onwards, which is very reassuring in a context of poor visibility and challenging macro conditions. Buy recommendation and FV of EUR28 confirmed.

ANALYSIS

- **Share of exclusive brand frames now close to 70% in H1 2016 (+10pp).** Increasing this share is one of the group's key pillars for sustaining top line and earnings growth over the MT/LT, with the in-house brand PF already boasting significant presence in some categories, as highlighted in the chart below. As such, GV increased the share of its exclusive brand frames by 10pp to ~70% of prescription frames over H1 2016, and this was a significant driver of the impressive 80bp margin improvement in the G4 segment (more profitable than third-party brands). The poor sun season across Europe also had a favourable impact on the product mix (the sunglass category is less profitable).

Share of exclusive in-house brands by category (at end-2014):

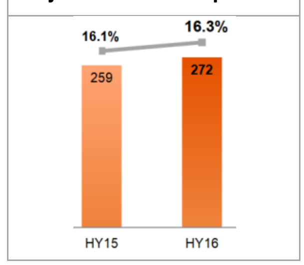


Source: Company Data

- **First European omni-channel platform introduced in Germany.** Indeed, the new online store for the German Apollo Optik retail banner will be the group's second omni-channel platform (the one in China is already operational) but the first in the G4 region. Unlike its main competitor Fielmann that does not want to expand online (~4% of the German optical retail), GV's management views it as a "natural evolution" of its "brick-and-mortar" operations, providing value-added services such as the "Click-and-collect" service, online booking eye tests, etc. The aim is to drive in-store traffic and improve the customer experience. Consequently, this online platform should become an interesting competitive advantage vs. Fielmann and also a solution to deal with Brillen.de, a fast-growing multi-channel provider in Germany (2015 sales >EUR30m in Germany). If this omni-channel approach is successful, GV could replicate it in the UK where it owns a leading online contact lens retailer (Lenstore), which could become a possible omni-channel platform for Vision Express in the MT.

- **Acquisitions: update on the integration process.** The integration of ***For Eyes*** is going ahead according to plan. Just after completing the acquisition (in December 2015), GV reacted promptly by reorganising the supply chain and revamping the commercial offer (roll-out of exclusive brands). Now efforts are being made in employee-training programmes, IT platforms, etc. which take longer to bear fruit. As stated earlier this year, given the size of *For Eyes*, the integration is likely to take between 12 and 18 months to complete. Management admitted that the integration of the **Italian business** (*Randazzo*, December 2014) was more complicated than expected given the merger of different banners (*Avanzi* and *Optissimo*) and a difficult retail environment in Italy. In H1, these acquisitions had a ~40bp dilutive impact on the Group's profitability improvement (=> adj. EBITDA margin of 16.7% instead of 16.3% reported).

Adj. EBITDA development



(To be continued next page)

- **Continuous efforts to streamline the cost structure.** GV's single global platform provides a positive mass scale effect that enables the group to offer a very competitive offering while reducing costs. As an illustration, the new Lens Tender 2016 (tender bid organised by GV every three years) will imply a sharp reduction in lenses SKUs (-50%), an improved service level and shorter lead times, leading to efficiency gains for both GV (=> positive impact on GM) and its suppliers. The TechCenters, which now assemble over 60% of global lenses sold by the group, also release productivity and efficiency gains.
- **MT targets reiterated.** Against these positive results driven by this proven business model, management is confident that GV can achieve its two main financial objectives this year and onwards: **(i)** top-line growth over 5% FX-n excl. large acquisitions and **(ii)** adj. EBITDA growth in the high single-digits. As such, we are making no change to our FY 2016 assumptions.

VALUATION

- This publication confirms our positive stance on GV, which continues to make the most of its critical mass to win market share in a highly fragmented market, through either sustainable organic growth or M&A operations.
- Despite the 7% increase on Friday, the stock remains clearly more attractive than its most direct peer Fielmann, with 2017e EV/EBIT adj. of 16.9x vs. 19.6x for the German group. Buy recommendation and FV of EUR28 confirmed.

NEXT CATALYSTS

- GrandVision is due to report its Q3 2016 Trading Update on 27th October.

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